

ABSTRACT

2 A system, method and computer program for creating and valuing financial instruments
3 (including but not limited to futures, forwards, call options, put options, swaps, "swaptions", and
4 "op-swaps") linked to average credit spread information. The present invention will be referred
5 to in this application as an average credit spread-linked financial instrument, and is defined as a
6 financial instrument whose value changes based on movements in underlying average credit
7 spreads. These average credit spreads may be calculated, or may already be published by
8 sovereign governments, government-chartered agencies and departments (ex. U.S. Treasury
9 Department), non-governmental organizations, commercial banks, investment banks, and many
10 other organizations. The instruments can be written, with a published average credit spread
11 number as the initial value upon which the financial instrument's terms are based. The predicted
12 future value of said credit spread will change in response to market buy / sell demand based on
13 investor expectations of said predicted future value of said credit spread related to one or more
14 credit spread-linked financial instrument(s). Thus, the predicted future value of said spread will
15 change in response to said market demand as investors offer to buy and / or sell credit spread-
16 linked financial instruments which will be listed on securities exchanges and electronic
17 commerce networks (ECNs) as well as over the counter (OTC) and in private transactions. Each
18 predicted future average credit spread value will change based on said investor expectation of
19 how strong demand will be for the underlying average credit spread involved. Thus, the present
20 invention gives investors a means of taking or adjusting positions upon average credit spread
21 changes in market segments defined by geography, credit history, industry type, industry size,
22 firm size, provision of collateral, third-party guarantee, or type of debt obligation. It is important
23 to note credit spread-linked financial instruments can be created either in standardized contract
24 sizes that can be traded on futures, options or other securities exchanges, ECNs and / or OTC, or
25 can be customized to meet the specifications of a transactional counterparty which wishes to
26 speculate on movements in market segments defined by geography, credit history, industry type,
27 industry size, firm size, provision of collateral, third-party guarantee, or type of debt obligation.
28 Such instruments may also be created from a plurality of spreads, thus allowing an investor to
29 package movements from several different credit spreads into a single financial instrument.
30 Such instruments may also involve a combination of credit spread-linked financial instruments,

- 1 either with each other or with other financial instruments in a combination containing at least one
- 2 credit spread-linked financial instrument.